An Analytical Study of Sources of Incomes and Expenditures of Municipal Corporations of Uttar Pradesh (A Comparative Study among Selected Top 10 Municipal Corporations of Uttar Pradesh)

Synopsis

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Introduction

Municipal Corporation in India

The article 243Q of the 74 Amendment provides that for a larger urban area municipal corporation is there ,for a smaller urban area there is municipality & for a transitional areas i.e. where a area is in transition from rural to urban there be a nagar panchayat. The following Amendment provides that the division of municipal areas shall consider the Population of the area, revenue generation, local administration, employment percentage of people in non-agricultural activities and other such factors as may be stated in the public notification as specified by the state government. In India Municipal Corporation are formed under the corporation Act of 1835 of Panchayat Raj System. They are state government formed department that works for the development of a city having a population of more than 1 million.

Thus, There are around 3900 urban local bodies in India with 241 municipal corporations of India, 3200 municipal councils and 5600 nagar panchayats. 17 Municipal corporations in Uttar Pradesh 278 municipal boards, 59163 gram sabhas, 954 development blocks and 6 municipal corporations Union territories of India

Powers & Functions of Municipal Corporation in India

The municipal bodies in India are vested with a number of functions, which are delegated to them by the state governments under the municipal legislation. The functions are generally related to public health, public safety, public infrastructure & other development related activities. For the effective execution of the various plans & programmer the municipal corporation are working in coordination with the state government. The functions powers and the responsibilities of the corporation can be categorized as

1) Obligatory Functions

2) Discretionary Functions

A) Obligatory Functions

•Urban Planning including town planning.

•Supply of pure & wholesome water to domestic industrial & commercial purposes.

•Construction & maintenance of roads & bridges.

•Public health, sanitation & solid waste management

•Provision of urban amenities and facilities such as parks, gardens, playgrounds, sports fields, swimming pools.

•Vital registration of births, deaths & marriage

•Provision for public safety including of fire services.

•Arrangements for parking lots, bus stops & public convenience.

•Regulation of slaughter houses and tanneries.

•Slum improvement and up gradation.

•Construction and maintenance of public streets and lighting.

B) Discretionary Functions

•Housing for low income and poor people.

•Protection of the environment and promotion of ecological aspects

•Primary health care & primary education

•Promotion of culture & heritage

•Safe guarding the interest of weaker section of society.

Structure of Municipal Finance

Municipal Finance (Finance of Municipal Bodies)

Municipal finance is about the revenue and expenditure decisions of municipal governments. It covers the sources of revenue that are used by municipal governments – taxes (property, income, sales, and excise taxes), user fees, and intergovernmental transfers. It includes ways of financing infrastructure through the use of operating revenues and borrowing as well as charges on developers and public-private partnerships. Municipal finance also addresses issues around expenditures at the local level and the accountability for expenditure and revenue decisions, including the municipal budgetary process and financial management. (The Human Settlements Financing Tools and Best Practices Series Guide to Municipal Finance First published in Nairobi in 2009 by UN-HABITAT.)

In India the finance of the municipal bodies are regulated and determined by the state government and as per the 74 amendment act, the article 243X state by law may authorized a municipal body to impose and collect taxes, duties, tolls & fees. As per the 74th amendment the Indian constitution has made it

mandatory to constitute a state finance commission for every state government. The purpose of constituting a state finance commission is to review and check the financial position of all the local bodies, to lay down the procedure of accounting practices to be followed, and also, to make recommendations with respect to the distribution between the states and municipalities. Further the state also investigates the criteria for grants in aid and suggest the areas to improve the financial position of the municipalities.

(a)Income of the Municipal Corporations

Income or Revenue is amount earned during an accounting period by levying or imposing fees & taxes as applicable by laws or by carrying out discretionary or obligatory functions as specified in the act. The urban local bodies' income base is categorized as revenue income & capital income

Revenue Income:

The revenue account is comprised of operating income & expenditure of the corporation. These are generally recurring in nature & are usually done to maintain the operational efficiency of the corporation. The revenue base of Municipal Corporation can be categorized as external & internal sources: Internal Sources includes Tax Revenue and External Sources Includes grants in and, pal grants & shared taxes. General purpose and specific purpose grant in lieu of taxes, toll compensation (octroi compensation) Roads grants, and school building grants, integrated development of small and medium towns (IDSMT) urban basic services for the poor, National slum development (NSDP)

Sources of Fund

The Revenue income of the municipal corporation mat be categorized into two major parts

(a) Own Sources

(b) Grants & Subsidies

Own Sources- Income from own sources can be further divided or categorized as Tax Sources & Non-Tax Sources.

Tax Revenue

The majority of the income of the corporations flows from taxes. It is generally in between two-third to three-fourth of the total income. A corporation generally has the power to levy and collect the following taxes: -The Corporation levies property tax & other services based tax such as water tax, sewerage tax,

Lighting tax, education tax, vehicles tax, advertisement tax, tax on land, hoarding on bus shelters & traffic signals, Theatre tax, profession tax, entertainment tax, education tax, tax on advertisements, tax on consumption and sale of electricity betterment tax development charges. Property Tax is levied on residential, commercial land service charges that lie within its jurisdiction. The property related taxes are commonly referred as house tax on lands & buildings situated within the municipal limits.

Non-Tax Sources

Rental income from municipal properties

The Municipal Corporation also possess & owns assets in the form of building & land which are rented out or leased to generate revenue. Rental Income from municipal properties is one such income & includes rent from office building, from guest houses, rent from civic amenities like markets, shopping complex, auditorium ,art galleries , community halls & play grounds etc.

Fees & User Charges

Fees & user Charges includes income from licensing fees like license fees from shop, hotel, rickshaw, cinema, bar etc. This also includes building permit fees, registration charges, development charges, colonizer registration fees.

Miscellaneous Receipts

It includes fines & penalties, birth & death registration charges, copying fees, income from press, nurseries.

Grants & Subsidies

Grants Received by the urban local bodies may be of revenue or capital nature. A revenue grant benefits usually expire within the accounting year in which it is utilized for meeting recurring expenditure. A Revenue grant are utilized for meeting revenue or recurring expenditure & the benefits of which usually expire within the accounting year in which it is incurred. These are revenue receipts from central & state government & various boards & committees. This type of grants includes road development grant, family welfare grant, grant for filter plant maintenance, grants for gardens & plantation, grants for education purposes.

Capital Income:

A Capital grant is generally spent or utilized for capital expenditure i.e. purchase of fixed assets like land & building, office equipment's, vehicles, construction of roads etc. General Grant are usually in the form of a lump sum payment from to state government to facilitate meeting expenses which are generally of revenue nature. Grants received in compensation of toll or other revenues sources forgone by the urban local bodies

(b) Expenditures of the Municipal Corporation

Municipal Corporations expenditure is of two types – revenue and capital. The ULBs also incur welfare and other expenditure on unforeseen activities. Municipal Corporations also funds its capital works by way of loans and subsidies from the state and central governments and other institutions under different project specific funds. It also utilizes revenue surpluses on capital works

Revenue Expenditure

It means the outlay benefitting only the current year.it is treated as an expense to be matched against revenue. (ICAI) It is the amount spent during an accounting period by the corporation for carrying out its discretionary or obligatory functions as specified by the act.

(a) Establishment Expenditure-It includes all the expenses incurred for development & maintenance of human resource like

• Salary, wages bonuses to officers & other staff

• Benefits & Allowances like LTC, overtime allowance, medical reimbursement, education allowance, compensation to staff, honorarium to corporation and other HRD activities.

• Pension & Other Terminal &Retirement Benefits like Pension contribution, leave encasement, retirement gratuity, contribution to P.F. & other funds.

(b) Administrative Expenses –It covers all the

• Rent Rates & Taxes.

• Communication expenses-telephone, mobile Fax expenses

• Printing &Stationary – service postage, stationary & computer consumables

• Traveling & Conveyance – Petrol, Diesel, fuel

• Books & Periodicals- Magazines, Journals, Newspaper

• Professional & other fees-Consultancy charges paid to professional like architect & engineers.

• Insurance & Audit Fees

• Legal Expenses- legal expenses, cost of recoveries of tax, suit compromises

(C) Repairs & Maintenance

This head covers all the expenditure incurred on repairs & maintenance of municipal assets & properties & includes the following

• Repairs & Maintenance of infrastructure assets like roads & bridges, street lighting, fly-overs traffic signals, water supply & sewerage

• Repairs & Maintenance –civic amenities –maintenance of Public places like parks, garden, play grounds, market areas, commercial complex, swimming pools, parking lots& public toilets

• Repairs & Maintenance of office buildings, transport vehicles, furniture & fixtures, office equipment's & electrical appliances.

(d) programmes Expenses-It includes election expenses own programmer & share in programmes of others, share of expenses in programmes conducted by others, census expenses etc.

(e) Miscellaneous Expenses –includes expenses like loss on disposal of assets or investments Decline in value of investments.

Capital Expenditure

An expenditure intended to benefit future period in contrast to a revenue expenditure. Which benefits a current period. The term is generally restricted to expenditure that adds fixed assets units or that has the effect of improving the capacity, efficiency, life span or economy of operations of an existing asset (National Accounting Manual) The capital expenditure includes all the expenditure incurred on acquisition & creation of capital like construction of building, roads, water supply pipelines, drainage lines, purchase of fixed assets like plant & machinery, vehicles, equipment's etc. The major expenditure of the municipal corporation is generally towards grants for specific and capital work-in –progress

Why Municipal Finance Matters

Relationship between Municipal Service Delivery and Municipal Finance India is one of the countries which is experiencing a rapid growth of urban areas in the last few decades. With rapid urbanization the demand for the basic services and infrastructure is also increasing at a faster rate. This burden of increased population and urban civic infrastructure demand, lies on the local bodies But it has been

observed that the performance of urban local bodies are far away from satisfaction. The service quality is very poor, the production of services is inefficient and insufficient which indicates that municipal organization lacks professional delivery.

Poor finances of local bodies leads to poor basic services which further results into low capital investment as municipal organization faces financial crunch ,low investment further leads to low credibility of local bodies which in turn results in poor collection of revenue as the local citizen becomes dissatisfied with the municipal performance and loses trust on them ,so they are hesitant and avoid in payment of taxes or do not avail the required services ,Low tax collection leads to performance inefficiency and creates shortage of resources . The cycle goes on which leads to poor delivery and low quality of services which ultimately hampers the potential growth of local bodies.

Review of Literature

Table -1 National Review

S.No	Year	Author Name	Title of Paper	Objectives	Findings
1.	2019	Sanjay Rode	Financing capital expenditure through municipal bond market in Navi Mumbai Municipal Corporation	To know the expenditure pattern through bond market.	Study found number of problems in corporation area. Therefore, Municipal Corporation must implement following policies to overcome with various issues.
2.	2018	Mr.Borse Vishvnath Yuvrajbhai	A Study on Financial Performance of Selected Municipal Corporation in Gujarat State	To compare per capita income and expense among selected Municipal Corporation namely Ahmadabad Municipal Corporation (AMC), Surat Municipal Corporation (SMC) and Vadodara Municipal Corporation (VMC).	Study found that overall, the per capita income and per capita expense is increased during the study period. The per capita income is not equal in all selected Municipal Corporation whereas the per capita expense is equal in all selected Municipal Corporation.
3.	2018	M.Murugaraj and Dr. P.Tamizhselvan	Revenue and Expenditures of	To analyze the revenue resources and revenue	Study reveals that the performance is also measured

			Select Municipalities in Tamil Nadu	expenditure of these municipalities in Tamil Nadu. To examine the trends in major revenue sources and expenditures of municipalities and assess their fiscal position.	through relative analysis of the Municipal Corporations in a cross section in terms of absolute figures and their growth.
4.	2018	Samadri Muniswami	Income and disbursement of Urban Local Bodies: A Study of Kurnool Municipal Corporation	To study the historical evolution and growth of urban local self governments in India. To examine different financial wherewithal of urban local self governments in India.	It is evident from the study that the total revenue of Kurnool Municipal Corporation is erratically distributed over the years. During first four years of study it gradually increased year by year.
5.	2017	Mr. Siddaram. H. M. and Prof. H. H. Bharadi	Financial Performance of Municipal Finance in Karnataka: a case study of Hubli-Dharwad Municipal Corporation	To examine the Financial Performance Indicators of Hubli-Dharwad Municipal Corporation	Study reveals that the poor design of cost recovery instruments and inability of urban local bodies to demonstrate a close connection between user charges, fees and civic services are key factors as to why they are yet to become major sources of municipal finance in India.
6.	2016	Mr.Laxmikant M.Sharma Dr.Shamkant N. Kotkar	Analysis of Financial Performance of Municipal Corporation: A Case Study	To study of sources of income and expenditure of Jalgaon Municipal Corporations in Maharashtra	The Municipal Corporation has need to enhancement in sources of receipt and reduce the administration expenses to earn maximum gain from operation
7.	2015	Raj Kumari	Financial Performance of Urban local bodies	analysis of the income and	Municipal Corporations in

			in Punjab case Study of selected Municipal Corporations	expenditure and sources of their finance Municipal Corporations in Punjab	Punjab mostly has the surplus budgets because Municipal administration always doing safe practices because they were uncertain about the amount of grants and loans from the government. The Municipal Corporations in Punjab mostly spending major share on establishment and other non-development works. Although some corporations have improved their expenditure trend in recent years and convert it to development works.
8.	2014	Dr. N. M. Makandar Mr. I. K. Mulla	Analyzing The Financial Performance of Selected Municipal Corporations In Karnataka	To evaluate the financial health of selected Municipal Corporation for the period of five years.	Study reveals that most of the urban Local Bodies are constrained in discharging their obligatory functions due to a limited resource base.
9.	2011	Tamal Basu Roy sanjoy Saha	A study on factors related to urban growth of a municipal corporation and emerging challenges: A case of Siliguri Municipal Corporation, West Bengal, India	To analyze the subsequent growth of Siliguri Municipal Corporation, impetus behind the growth and to highlight the allied problems related to growth of the Corporation.	From the precise study of Siliguri Municipal Corporation, it is revealed that although the rate of urbanization is rapid in the developing countries due to lack of proper planning strategy for the development of urban centres, contemporarily.

Need of the Study

Growing urbanization is emerging as the most challenging issue faced by any developing country. The increasing population is rendering the task of service delivery difficult. Given the impetus towards urbanization, the future of Indian cities will depend mostly on how successfully the urban local bodies are functioning with effective governance. But it has been observed that the performance of urban local bodies are far away from satisfaction. The service quality is very poor & municipal service delivery lacks professional delivery. There is need to provide for housing, health, sanitation, water supply, transport and education. The current level of infrastructure are not enough to meet the demand of the growing population. The infrastructural development activities needs proper backing of finance. The urban local bodies are expected to raise reasonable magnitude of funds from the services which they provide to local citizens. A study conducted by the National Institute of Public Finance& Policy reveals that most of the urban local bodies are constrained in discharging their obligatory functions due to limited resource base and are unable to meet the minimum standards of services. For every local bodies becoming self-reliant financially & efficient management of funds is the need of the hour The main focus of the study is to examine the financial picture of the Uttar Pradesh Municipal Corporation and also to analyze the income & expenditure profile of the municipal finance, to identify the scope of mobilization of resources, to check whether the received revenues were utilized rationally or not and to evaluate the effectiveness of municipal service delivery mechanism.

Objectives of the study:

1. To know and analyze about the different sources of Income and Expenditure of selected Municipal Corporation of Uttar Pradesh from financial year. (2017-18 to 2021-22)
2. To know and analyze about tax revenue and non-tax revenue of selected municipal Corporation of Uttar Pradesh.
3. To compare and analyze tax revenue and non- tax revenue of selected municipal corporation of Uttar Pradesh.
4. To analyze the financial strength of selected Municipal Corporation of Uttar Pradesh.
5. To compare and analyze the liquidity performance of selected municipal corporation of Uttar Pradesh.

6. To examine the stakeholder's satisfaction and perception of the service delivered by selected Municipal Corporation of Uttar Pradesh.

Hypothesis of the Study:

1. There is no significant differences in revenue receipts of selected municipal corporations.

2. There is no significant differences in capital receipts of selected municipal corporations.

3. There is no significant differences in revenue expenditure of selected municipal corporations.

4. There is no significant differences in capital expenditure of selected municipal corporations.

5. There is no significant relationship between Municipal Service Delivery & stakeholder Satisfaction.

Research Methodology

Research Methodology is a way to systematically solve the research problem. It is a science of studying how research is done scientifically.

Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is the conceptual structure within which research is conducted. It constitutes the blueprint for the collection, measurement and analysis of data.

This research is based on the status of municipal finance of the Selected Municipal Corporation

In Uttar Pradesh and their efficient service delivery. The method employed in this study is both descriptive &analytical. Both primary & secondary sources have been used for the data collection.

Data Collection

a) Primary Data

Primary data are original in nature as they are collected afresh and for the first time. There are several methods for collecting primary data like interview method, observation through questionnaire, through schedules, telephonic survey/email survey.

For achieving primary data-based objective a self-structure questionnaire will be formulated for knowing the stakeholder perception and satisfaction towards selected municipal corporations giving service delivery. Questionnaire will be composed of demographic detail of the respondent like gender,

age, education, employment status and the ward which they belong. The questions are based on 5-point Likert scale (in which 1 is strongly disagree and 5 is a strongly agree.)

A study requires stakeholder's satisfaction and perception for the service delivery of Municipal Corporation for collecting opinions of stakeholders a sample survey taken up through a well-designed questionnaire from the sample respondent the scope of the study covers 10 municipal corporations. A sample of 400 respondent has been selected by adopting stratified random sampling techniques. Stakeholders are divided into employee, resident, members and others. 10 questionnaire will be filled from each selected 10 municipal corporation.

According to Krejcie and Morgan table, sample size to known population for above 10 lakh population (minimum sample size should be taken 384.)

Table -2:Respondents

STAKEHOLDERS	Total respondent
Employees	100
Resident	100
Members	100
Others (contractor, mayors, politicians)	100
Total	400

b) Secondary Data

The secondary data were collected from the published & unpublished financial records ,the municipal budgets of various years in different Municipal Corporation of Uttar Pradesh Statistical books and different articles & reports published by the Municipal Corporations .

The further information required for this study was also gathered through various other sources like journals, government reports, Ph.D. thesis, books, magazines, municipal performance index reports, ease of living index reports, annual reports and internet sources were explored and referred to collect the secondary data.

Sample Design

A sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample

Sampling Technique:

Purposive sampling method has been used for the selection of Municipal Corporation from Uttar Pradesh. Convenient& Quota sampling method has been applied in selecting the data for the sample.

Sample Size

Sample size for the research study based on Top 10 Municipal Corporation which are being selected by researcher on the basis of Population.

Table3: List of Municipal Corporation

S.no	District	Municipal Corporation	Population	Area in Kms	Formation Year	Ruling Party
1	Kanpur Nagar	Kanpur Municipal Corporation	**2,920,067**	260	1959	BJP
2	Lucknow	Lucknow Municipal Corporation	**2,901,474**	631	1959	BJP
3	Ayodhya	Ayodhya Municipal Corporation	**2,470,996**	159	2017	BJP
4	Ghaziabad	Ghaziabad Municipal Corporation	**2,458,525**	210	1994	BJP
5	Agra	Agra Municipal Corporation	**1,746,467**	121	1982	BJP
6	Varanasi	Varanasi Municipal Corporation	**1,435,113**	82	1994	BJP
7	Meerut	Meerut Municipal Corporation	**1,424,908**	450	1994	BSP
8	Prayagraj	Allahabad Municipal Corporation	**1,216,719**	365	1959	BJP
9	Bareilly	Bareilly Municipal Corporation	**959,933**	106	1994	BJP
10	Aligarh	Aligarh Municipal Corporation	**909,559**	104	1994	BSP

Duration of the Study

The Research study is based on top 10 Municipal Corporation from Uttar Pradesh from financial year. (2015-16 to 2021-22)

Tools & Techniques of Analysis:

SPSS and MS-excel will be preferred for achieving the research objectives based on the primary data and secondary data selected from Municipal Corporation of Uttar Pradesh. In which various statistical tools & techniques such as Mean, Standard Deviation, Compounded Annual Growth Rate (CAGR), and Analysis of Variance have been applied.

Objective wise Research Methodology

Table 4: Objective wise Research Methodology

S.NO	OBJECTIVES OF THE STUDY	RESEARCH METHODOLOGY
1.	To know and analyze about the different sources of Income and Expenditure of selected Municipal Corporation of Uttar Pradesh from financial year. (2017-18 to 2021-22)	For attaining this objective annual Reports and Revenue and Expenditure statements of selected municipal corporation of Uttar Pradesh studied.
2.	To know and analyze about tax revenue and non-tax revenue of selected municipal Corporation of Uttar Pradesh	For achieving this objective annual reports and tax revenue and non-tax revenue.
3.	To compare and analyze tax revenue and non-tax revenue of selected municipal corporations of Uttar Pradesh. .	For comparing and analyzing tax revenue and non-tax revenue ANOVA, paired t-test and appropriate tools will be used.
4.	To analyze the Financial strength of selected Municipal Corporation of Uttar Pradesh.	Financial strength is compared on the basis of revenue generation and expenditure of selected Municipal Corporation through essential services like house maintenance tax, water tax, are analyzed and compared with ease of living index given by selected municipal corporation.
5.	To compare and analyze the liquidity performance of selected municipal corporation of Uttar Pradesh.	For comparing and analyzing liquidity performance, ANOVA test is applied on selected Municipal Corporation by taking liquidity ratio analysis.
6.	To examine the stakeholder's satisfaction and perception of the service delivered by selected Municipal Corporation of Uttar Pradesh.	For achieving this objective researcher will frame a well-structured questionnaire and collect the information from different stakeholders, for knowing the perception regarding municipal corporation service delivery.

Proposed Plan of the Study

Chapter-1 Introduction and Review of literature

Chapter-2 Sources of income and expenditure of selected municipal

Corporations of Uttar Pradesh.

Chapter-3 An Analyses the Financial Strength of selected Municipal Corporation of Uttar Pradesh

Chapter-4 An Analyses the liquidity performance of selected Municipal Corporation of Uttar Pradesh.-

Chapter-5 An Analyses stakeholder's satisfaction and perception of the service delivered by selected Municipal Corporation of Uttar Pradesh

Chapter-6 Finding, Suggestion and Conclusions

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